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THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
RICHARD M. COOK

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THE INTERNATIONAL BANK
FOR
RECONSTRUCTION AND DEVELOPMENT

by
Richard M. Cook
//
Lieutenant Commander, United States Navy

Submitted in partial fulfillment of
the requirements for the degree of

MASTER OF SCIENCE
IN
MANAGEMENT

United States Naval Postgraduate School
Monterey, California

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RECONSTRUCTION AND DEVELOPMENT

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This work is accepted as fulfilling
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MASTER OF SCIENCE

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MANAGEMENT

from the
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ABSTRACT

Following the immediate task of post-World War II reconstruction, the economic development of backward nations ranked at the top of the more urgent, long range world problems. One of the principal instruments of financing development throughout the world has been the International Bank for Reconstruction and Development, commonly known as the World Bank. Established by the Bretton Woods Conference of 1944, the mission of the World Bank was to assist in the reconstruction and development of member countries by stimulating international investment of capital for productive purposes. In its twenty years, the World Bank has significantly affected the international development effort. In the process, its activities have ranged far beyond that of simple financial intermediary. It is the purpose of this paper to examine the objectives and operations of the Bank with a view toward appraising its past effectiveness and future contributions to the financing of international economic development.

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CHAPTER I

THE BRETTON WOODS CONFERENCE

Early in World War II, leaders of the Allied Powers could see that thought should be directed toward what kind of world was desired to follow the war. One idea, with which this paper is concerned, focused attention on postwar reconstruction and economic development. The idea became, in time, a proposal for an international conference in a secluded area removed from the war influence. And so the Bretton Woods Conference was born.

Delegates attending the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, July 1944, had as their task the devising of a postwar economic order. The war was still very much in process; one could but speculate as to the political and economic conditions that would prevail at its termination yet they were met to establish machinery to cure postwar ills. Clearly, years of massive world destruction would require a reconstruction program of unprecedented magnitude. And beyond the immediate problems of how to administer relief, rehabilitation, and reconstruction, there was the important long-run need to construct a viable, international economic structure by which the nations of the world could again share the benefits of world commerce.

Such a structure must permit the conduct of international trade within a general framework of relative exchange stability and in a manner compatible with individual national objectives of stable domestic prices and

high levels of employment. It must provide also for the re-establishment among nations of confidence in foreign investment, vital to continuation of international balance of payments equilibrium and development of the productive resources of the world's nations. The delegates were very much aware of their task and its difficulties.

For guidance of a practical nature, the delegates had the dismal history of the economic consequences of World War I and its Treaty provisions. From the end of that war, the 25 years intervening had experienced economic misfortunes of extraordinary dimensions. And from their vantage point in 1944, the delegates could see that the Treaty of Versailles had, in a great and direct manner, caused the post World War I debacles-- the depression of the 1930's and the war of the 1940's.

The conferees, in assessing present economic conditions, addressed two principal requirements: 1) assisting the economic transformation from a wartime to a peacetime orientation, and 2) creation of a viable international economic structure over the long run.

While transition from war to peace would be the first order of business, it was felt that the process would be carried out mainly by each individual nation in conjunction with bilateral assistance from the United States. Indications were that this was a reasonable assumption. The U. S. had overcome its reluctance to lend to foreigners in default on WW I war debts and had entered into massive lend-lease, without immediate attention to repayment. The lessons from WW I were clear: early rehabilitation and

reconstruction of the world economy was imperative.

Only as each nation again established its productive capacities and entered into world trade could the deprivations of war be permanently eradicated.

The longer-run problem of establishing a multilateral system of payments based on exchange stability and unhampered by foreign exchange restrictions was considered the more difficult requirement and occupied the principal attention of the delegates. For not only must the shortcomings evident from the inter-war period be overcome, there were significant new imponderables. Russia had established itself as a viable member of the world economic community. During the 1930's, the USSR, because of very limited dealings with the outside world, was relatively unaffected by depression and experienced almost uninterrupted productive growth. Thus far, in the conduct of World War II, there were clear indications of the Russian intent to bring Eastern Europe under political and economic domination. The dimensions of the eventual East-West struggle, of course, could only be imagined at this point in time. Nevertheless, it was apparent that unless the free world could create organizations of supra-national authority by which national policies contributed to a better world order, the freedom and prosperity of democratic peoples were in danger. It was under this general premise that work proceeded on two main efforts: the International Monetary Fund and the International Bank for Reconstruction and Development.

Two Plans: Keynes and White.

The conferees brought with them and were in other ways aware of a variety of plans and approaches to their task. Principal among these were the White Plan and the Keynes Plan, which were the respective efforts of Doctor Harry D. White, Director of the Division of Monetary Research of the U. S. Treasury, and John Maynard Lord Keynes, advisor to the British Treasury and, since his publication in 1936 of the General Theory of Employment, Interest, and Money, a world-renowned economist. Contrary to popular sentiment which, on the one hand, urged return to the gold standard at the earliest possible time and on the other, urged avoidance of the gold standard and the "strait-jacket of 1925-31," the two plans were basically quite similar. Each provided protection from the autonomous and rigid exchange adjustments imposed by the gold standard as it had previously been known. Each was acutely aware of the destructive affects a freely flexible system of exchange could have on international trade and economic relations, in general. Each made use of controlled short term capital movements in effecting necessary adjustments to short run payments imbalances.

The Keynes Plan called for an International Clearing Union with which the central Banks of all members would keep accounts, settling their ultimate outstanding balances with one another at their par value (fixed in terms of an international currency unit called "bancor," the value of which would be expressed in terms of gold). Surplus countries could use

their credit balances as desired but the remaining balances would be available to grant overdraft facilities to countries with debit accounts. The eligibility of debtor countries to borrow from the International Clearing Union (ICU) would be determined according to prescribed quotas; however, the use of a system of clearing, as opposed to subscription, offered overdraft credit facilities on a wide scale. In addition, ICU would exercise far-reaching jurisdiction in regard to matters of exchange restrictions and trade barriers. Keynes' plan continued beyond his proposals for the ICU and included establishment of a Board of International Investment, a Scheme of Commodity Controls, and an International Economic Board. In short, Lord Keynes envisioned a centralized structure covering nearly the entire field of world economic problems.

The plan adopted by the conferees, however, was the White Plan, on which the present International Monetary Fund (IMF) is based. In brief, IMF incorporated a number of the functions utilized by the Tripartite Agreement of 1936: member nation currencies were evaluated against each other by means of comparison to gold, gold continued to serve as an international means of payment and, under IMF, there continued to be a market for current gold output. For each of the 44 member nations, a subscription quota was prescribed according to economic status at that time. The significant feature of the IMF, of course, is the means by which exchange rates are maintained at rigid enough ranges so as to facilitate international trade and yet flexible enough to permit adjustments as necessary to correct for any fundamental disequilibrium. Basically, where Keynes

would have effected clearing of international balances on paper, the IMF actually enables a debtor nation to draw from its resources a prescribed amount of foreign exchange as necessary to meet its deficit payments commitments. The details of operation of the IMF need not concern us here. Some of the effects of IMF's operations on world development are covered later in this paper.

The interesting thing about the Bretton Woods Conference was that attention was focused almost exclusively on the IMF with the International Bank for Reconstruction and Development (IBRD or Bank) taking shape almost as an afterthought. For example, the organizational structure of the IBRD is identical with that of the IMF. The quotas for member states were established first for the Fund and then became the basis for subscriptions to the Bank. This caused some consternation in that a number of nations sought high quotas for the Fund in order to establish generous drawing rights but were less anxious to commit large sums to a development capital pool. The site chosen for the Fund automatically became the site for the Bank. Yet it was the Bank that received the yearly accolades as it established its method of operations and gradually built a solid position in the world of international finance. Certainly, the problems facing it were susceptible to more objective analysis and definitive solution than were those confronting the Fund. Nonetheless, the history of the IBRD--its operating philosophy, techniques, and contributions--form an essential cornerstone in the current context of world economic development. It is for the purpose of examining some of these aspects that this paper is written.

CHAPTER II

THE BANK:

OBJECTIVES, ORGANIZATION, AND OPERATIONS

Purpose.

As summarized from the Articles of Agreement,¹ the objectives of the International Bank for Reconstruction and Development are as follows:

1. To assist in the reconstruction and development of members by facilitating the investment of capital for productive purposes, including restoration of war damaged economies, reconversion to peacetime production, and encouragement of development of productive facilities and resources in less developed countries;
2. To promote private foreign investment by guaranteeing or participating in loans or other investments made by private investors; in the absence of private capital on reasonable terms, by supplementing financing from its own resources;
3. To promote long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for development of productive resources of members;
4. To influence, as is possible by means of guaranteeing or participating in international investments, the direction of such investment so as to serve the more useful and urgent (developmental) projects; and

¹Reproduced as Appendix A.

5. To conduct operations with due regard to the effect of international investment on business conditions in the territories of its members and, in the immediate postwar years, to assist in the transition from wartime to peacetime economies.

The IBRD dates officially from December 27, 1945, when in conformance with Article 11, Section 1, 28 nations, comprising 65 per cent of the subscriptions, had signed the Agreement. Statutory authority for U. S. participation is the Bretton Woods Agreements Act, as amended (Public Law 171, 79th Congress; Public Law 86-48, 86th Congress).

From the above objectives it may be seen that the Bank was given an immediate and short term function: to aid in the massive task of restoring resources destroyed by war and to assist the transition of member nations' economies from a wartime to a peacetime basis. In addition, however, the Bank was assigned a long term function, for which it is best known today: to contribute toward the development of the economic resources of less developed member nations in order to enhance productive capacity and improve existing standards of living. The immensity of the former task made it necessary to create a number of lending arrangements, both bilateral and multilateral, to assist in European recovery. The first loans of the Bank were exclusively to nations of Western Europe for purposes of reconstruction. Actual amounts loaned by the Bank were almost insignificant compared to the amounts made available by such organizations as UNRRA, the Marshall Plan, and other bilateral programs. Only after a large proportion of the Bank's paid-in capital had been lent for reconstruction

did the increasing assumption of the reconstruction burden by other agencies permit the Bank to turn to financing of development.

In its second, long-run function of development, the Bank soon found it must provide a number of ancillary functions in addition to the provisions of capital assistance. In early lending operations, it was less a matter of inadequate resources than it was a matter of verifying the potential value of a particular request for capital. The Bank found that it was necessary to develop an in-house capability for appraising the urgency, usefulness, and soundness of each specific project for which funds were requested. Nor was it sufficient that each project pass stringent tests concerning efficiency; it must also be compatible with the broader context of the national development scheme. Implicit in nearly every undertaking had to be its contribution either to increased productivity and, therefore, increased earnings of foreign exchange, or to improving the basic social overhead capital from which future gains in productivity could be expected to be made. Consequently, the Bank found it necessary to acquire considerable talent for purposes of investigating project requests, analyzing compatibility with national development programs, appraising the progress of a particular project, once underway, and in providing general expertise for many of the less developed nations which lacked such talent.

Organizational Structure.

The Bank's principal headquarters is located in Washington, D. C.²

²As prescribed by Article 5, Section 9.

All powers of the Bank are vested in a Board of Governors, one appointed by each member country, who meet annually to review the operations of the Bank. The Board of Governors has delegated all of its authority, except that of signal importance to the 18 Executive Directors, of whom, five are appointed by the five principal members, and 13 are elected by the remaining members. The Executive Directors function in continuous session at the Bank's headquarters. Operations of the Bank are conducted, under the Executive Directors, by a President who is responsible for the organization, appointment and dismissal of officers and staff.

Loan committees, appointed by the Bank for purposes of investigating individual requests for loans, include an expert appointed by the governor in whose country the loan is located and one or more members of the technical staff of the Bank.

There exists an Advisory Council of at least seven members, selected by the Board of Governors, who include representatives of banking commercial, industrial, labor, and agricultural interests and with as wide a national representation as possible. The council advises on matters of general policy.

Paid-in local currency holdings of the Bank are retained in depositories within each member country. Such depositories generally are central banks or, in the absence of a central bank, any governmental agency or institution acceptable to the Bank. Gold and other assets may be held in depositories designated by the five largest members and in such other depositories as the Bank may designate.

A nation may terminate its membership with the Bank by submission of written notice to that effect. A member failing to fulfill its obligations may be suspended by decision of the majority of the Governors, exercising a majority of the total voting power. Unless the decision to suspend the member is revoked in the interim, the member ceases to be a member one year from the date of suspension.

Financial Structure.

The financial structure of the Bank is premised upon attitudes which prevailed at the time the Bretton Woods Conference was held. At that time, it was believed that the Bank's major emphasis and value would be in guaranteeing the loans made by private investors rather than by lending directly from its own resources. The assumption, which proved to be in error, was that after the immediate postwar needs of reconstruction were satisfied, adequate private capital would be forthcoming due to the Bank's guarantee--the pledging of the collective security of its members. Consequently, 80 per cent of the Bank's subscribed capital is in the form of a guarantee fund, to be drawn upon only as necessary to meet obligations arising out of loan transactions and guarantees.

Under the Bank's initial charter, total lending authority was \$10 billion, of which paid-in capital was only one-fifth. Appendix A, Schedule A, indicates the subscriptions initially assigned to each of the 44 member nations. As may be seen, these subscriptions ranged from \$200,000 in the case of Panama to \$3,175,000,000 in the case of the United States. However, of

these total subscriptions, only one-fifth was to be paid on the following basis: 2 per cent was to be paid in gold or U. S. dollars and 18 per cent was to be paid in the member's own currency. Accordingly, paid-in capital amounted to approximately \$2 billion. The purposely low deposit in gold and U. S. dollars was to avoid undue hardship on a number of nations which, at that time, were generally hard pressed for such media in foreign exchange uses.

In October 1958, at the thirteenth annual meeting in New Delhi of the Governors of the IBRD (and IMF), the U. S. Governor, Secretary of the Treasury Robert B. Anderson, proposed large-scale increases in the capital of the Bank. Following this action, it was proposed by the Bank that its resources be increased from \$10 billion to \$21 billion, that members double their subscriptions, and that calls on subscriptions would not be made for use in operations but would remain subject to call to meet the Bank's obligations. These proposals were approved and became effective on September 17, 1959, when sufficient votes had been received and a minimum of \$7 billion in doubled subscriptions had been taken by the member countries.

The rationale behind the increase in Bank capital subscriptions was set forth clearly by Secretary of the Treasury Robert B. Anderson, then U. S. Governor of both the Bank and the IMF, in his report to the House Subcommittee on Banking and Currency on March 7, 1959.³

³Statement of Secretary of the Treasury, Robert B. Anderson, before the Subcommittee of the House Committee on Banking and Currency, in U. S. Department of State Bulletin, Vol. 40: 443-454, para. 10, 1959.

After having pointed out the Bank's outstanding funded debt of \$1.0 billion and the current annual rate of lending at between \$700 and \$800 million, Anderson cited the fact that continued borrowing in the capital markets of the world at the required magnitude depended upon maintenance of existing high confidence in the quality of Bank offerings. Yet, there was good reason to believe that, to a significant degree, much of this confidence had been inspired not only by the demonstrated soundness of the Bank's past operations, but because of the backing of \$2.54 billion U. S. dollar uncalled subscriptions. If outstanding debt by the Bank exceeded U. S. dollar contingent backing, as was then expected to occur by early 1961, the attractiveness of the Bank bonds would be seriously degraded. Accordingly, higher U. S. contingent backing, as well as collective increases in contingent backing by all member nations, were sought and obtained to avoid the possibility of diminishing Bank security attractiveness. It should be noted that the 100 per cent increase in member nation subscriptions was not to be used in the Bank's operations; rather, the entire increase was added to each nation's contingent liability. This rendered the increase palatable to all concerned in that no cash had to be expended as part of the increase. Member nation capital subscriptions, as of March 1960, are indicated in Table I.

Sources of Funds.

The Bank's operations are financed by the following means: 1) direct lending from the paid in portion of the capital stock subscribed by members;

TABLE. I

Membership and capital subscriptions in the International
Bank for Reconstruction and Development as of
March 11, 1960

(In millions of U. S. dollars)

Member	Subscrip- tions at Mar. 11, 1959	100 percent increases completed	Special increases completed	Subscrip- tions at Mar. 11, 1960
Afghanistan.....	\$10.0			\$10.0
Argentina.....	150.0			150.0
Australia.....	200.0	\$200.0		400.0
Austria.....	60.0	50.0		100.0
Belgium.....	225.0	225.0		450.0
Bolivia ¹	7.0			7.0
Brazil.....	150.0	150.0	\$73.3	373.3
Burma.....	15.0	15.0	10.0	40.0
Canada ¹	\$25.0	\$25.0		650.0
Ceylon.....	15.0			15.0
Chile.....	35.0	35.0		70.0
China.....	600.0			600.0
Colombia.....	35.0	35.0		70.0
Costa Rica.....	2.0			2.0
Cuba ¹	35.0	35.0		70.0
Denmark.....	68.0	68.0	37.3	173.3
Dominican Republic.....	4.0	4.0		8.0
Ecuador.....	6.4	6.4		12.8
El Salvador.....	3.0	3.0		6.0
Ethiopia.....	3.0	3.0	4.0	10.0
Finland.....	38.0	38.0		76.0
France.....	525.0	525.0		1,050.0
Germany.....	330.0	330.0	300.0	1,050.0
Ghana.....	15.0	15.0	16.7	46.7
Greece.....	25.0	25.0		50.0
Guatemala.....	2.0	2.0	4.0	8.0
Haiti.....	7.5	7.5		15.0
Honduras ¹	3.0			3.0
Iceland.....	1.0	1.0		2.0
India.....	400.0	400.0		800.0
Indonesia.....	110.0	110.0		220.0
Iran.....	33.6	33.6	22.8	90.0
Iraq.....	6.0	6.0	3.0	15.0
Ireland.....	30.0	30.0		60.0
Israel ¹	7.5	7.5		15.0
Italy ¹	180.0			180.0
Japan.....	250.0	250.0	166.0	666.0
Jordan.....	3.0	3.0		6.0
Korea.....	12.5	12.5		25.0
Lebanon.....	4.5			4.5
Libya ¹	5.0			5.0
Luxembourg.....	10.0			10.0
Malaya.....	25.0	25.0		50.0
Mexico.....	65.0	65.0	43.3	173.3
Morocco.....	35.0	35.0		70.0
Netherlands.....	275.0	275.0		550.0
Nicaragua ¹	3.0			3.0
Norway.....	50.0	50.0	33.3	133.3
Pakistan.....	100.0	100.0		200.0
Panama ¹2			.2
Paraguay.....	3.0	3.0		6.0
Peru.....	17.5	17.5		35.0
Philippines.....	50.0			50.0
Saudi Arabia ¹	10.0	10.0		20.0
Spain.....	100.0	100.0		200.0
Sweden.....	10.0	10.0		20.0
Switzerland.....	100.0	100.0		200.0
Thailand.....	12.5	12.5	35.0	60.0
Tunisia.....	12.0			12.0
Turkey.....	43.0			43.0
South Africa.....	100.0	100.0		200.0
United Arab Republic.....	59.8			59.8
United Kingdom.....	1,300.0	1,300.0		2,600.0
United States.....	3,175.0	3,175.0		6,350.0
Uruguay.....	10.5			10.5
Venezuela.....	10.5			10.5
Vietnam.....	12.5	12.5	5.0	30.0
Yugoslavia.....	40.0	40.0		80.0
Total.....	9,556.5	8,381.0	843.7	18,781.2

¹ In addition to the above, increases in the capital subscriptions of Bolivia, Canada, Cuba, Honduras, Israel, Italy, Libya, Nicaragua, Panama, and Saudi Arabia are in process.

Source: Staff memorandum on International Lending Agencies, prepared for use of the Committee on Foreign Affairs, U. S. House of Representatives, Washington, April 27, 1960.

2) from funds raised through sales of Bank securities in the world capital markets; 3) from sales of parts of its loans to other investors; 4) from repayments from earlier loans; and 5) through net earnings which, in 1963, reached almost \$83 million. Each of these methods of finance require further consideration.

Inasmuch as the Charter for the Bank stressed its role of encouraging private investment by means of its collective guarantee, there were initial expectations that the Bank might simply stand behind member initiated borrowing. However, it was early determined that loans issued by different countries, at different rates of interest, yet all bearing the Bank's guarantee, could prove highly detrimental to the Bank's credit standing. Therefore, it was decided that borrowing would be done on a centralized basis through issuance of Bank bonds rather than through issuance of guarantees of member government issues. It was not a simple matter for the Bank to establish a market for its bonds. There was a need first to establish a sound lending philosophy, of which more will be said later. Secondly, there was an overwhelming demand for U. S. dollars in foreign exchange at the time the Bank commenced operations. For example, by mid-1948, the Bank had lent nearly \$500 million in U. S. dollars for long term reconstruction purposes to France, the Netherlands, Luxembourg, and Denmark. However, member nations had, at that same time, paid in less than \$100 million in gold and U. S. dollars, with the result that the Bank had to meet the balance out of paid in U. S. subscription of \$635 million or from loans floated in the U. S. capital market. But here the Bank ran into another complication.

At the outset, there were few states in which the Bank's securities could be purchased by institutional investors. The legal snarl was overcome by a concentrated promotional campaign, together with help from Congress.⁴ By mid-1949, the Bank's securities could be purchased by almost all institutions in some 37 different states.

During the first year of Bank operations, the only capital market able to provide funds for the purchase of Bank bonds was the United States. Shortly after making its first reconstruction loan, the Bank successfully sold, in July, 1947, a \$250 million bond issue in the U. S. market. During this period of European reconstruction, most of the goods needed by borrowers from the Bank could be obtained only for U. S. dollars. As a consequence, demand for U. S. dollars was particularly acute. The Bank early explored other markets in an attempt to extend its capital resource base. Bonds denominated in Swiss francs were placed privately in Switzerland in 1948. The first public issue sold outside the United States was placed in the United Kingdom in 1951. Public issues in Switzerland, the Netherlands, Belgium, and Canada followed; more recently, Germany became a supplier of funds. Together with the floating of issues in numerous capital markets, parts of the Bank's U. S. dollar issues were being sold abroad so that by 1960, Bank bonds and notes were held in more than forty countries. Investors outside the United States held over \$1 billion dollars of Bank obligations which, as of that time, amounted to more than half of the funded debt outstanding.

⁴In June, 1949, Congress enacted legislation authorizing national banks and state banks which are members of the Federal Reserve System to deal in and underwrite obligations issued by the International Bank.

A second major source of funds to the Bank is that made possible by participation in its loans by institutional investors and/or sales from the Bank's portfolio to such investors. Each action is possible only when potential investors are firmly convinced of the soundness of the specific project for which funds are being borrowed. In view of the Bank's conservative approach and its intensive examination as to the soundness of each prospective loan, it has built an excellent reputation by which current participation or subsequent sales from portfolio have remained in high demand. The confidence in the Bank's lending operations is demonstrated by the fact that sales from the Bank's portfolio have been made almost invariably without the Bank's guarantee in recent years, a factor which permits the Bank to pass on to the borrower the savings in loan commission, up to 1 per cent. As may be apparent, participations may be arranged simultaneously with the loan agreement or take the form of subsequent sales from the Bank's portfolio. It is the usual practice for the Bank to keep the longer term securities, obtaining from participants commitments for the shorter and medium term obligations. Another method by which wider capital market participation is obtained is through joint lending operations. In such a circumstance, the Bank will lend to a member government for a particular development project while the government concerned makes a concurrent public offering of its bonds through investment banking firms for the purpose of obtaining necessary supplementary financing for the same program. Through all of these methods of meeting borrower's requests for funds, the Bank is able to economize the call on its own resources,

in effect, to turn the available capital over more quickly, and at the same time, widen the existing capital market for investment in international development. This, of course, is a primary objective of the Bank.

In financing lending operations from paid in capital, the Bank was initially restricted as to availability of the 18 per cent deposited in each member's own currency. As specified in the Articles,⁵ this 18 per cent may be loaned only with the approval of the member whose currency is involved. At the outset of its operations, the Bank was aware that few members could spare capital for lending operations. Even if such funds could be made available for lending, these member nations would have difficulty in lending convertible currencies. Initial efforts were directed at persuading member nations of the need to release their currencies for lending. In some cases, progress was made in the form of attaining arrangements that such funds could be used provided the borrowing nation used the funds to purchase necessary goods from that particular member nation. Great Britain agreed, in 1953, to the use of £ 60 million for loans to countries in the sterling community of the Commonwealth, and has subsequently agreed to release the remaining £ 20 million over a period of time. Other nations were willing to accept partial convertibility, for example, use of their local currencies within the area of the European Payments Union. As of 1958, out of the 18 per cent member subscriptions, the Bank was able to consider as available for lending only \$1176 out of the total of \$1800 million (approximate). As expected, those nations with less acute balance of payments problems were first to

⁵Appendix A, Article 4, Section 2.

free their currencies. An increasing number of countries have, over time, been able to free their currencies so that by the end of 1959, "...the Bank had been able to make loans in 32 different currencies."⁶

The latter two sources of funds for lending operations--repayment of earlier loans and net earnings from interest and loan commissions--have contributed increasingly to the economic viability of the Bank. Loans made by the Bank are for long terms. Except for a single 30 year reconstruction loan to France, the maximum loan has been for 25 years; in 1957, the average of all loans outstanding was just under 14 years. As a result repayment of earlier loans constituted a very small source of funds during the first ten years of operation. By 1958, cumulative repayments by borrowers totalled \$392 million on total loans in existence of \$3,819.0 million, or 10.3 per cent (see Table II). More useful, is the percentage of repayment as compared to actual disbursements which, in 1958, amounted to 14 per cent (\$392 million: \$2,795 million). In 1963, repayments as a percentage of total loans granted and funds disbursed amounted to 18.5 and nearly 25 per cent, respectively. Clearly, over time, principal repayments will build to become a substantial portion of capital funds for continuing lending operations by the Bank. The same is true generally concerning regeneration of funds through net earnings and commissions on loans. From Table II it may be seen that net earnings have doubled every five years, roughly: from \$10 million in 1949, to \$20 million in 1953, \$42 million in 1958, and \$83 million in 1963. Income from loan commissions, while somewhat less, has followed the same general pattern. Normal Bank procedures call

⁶ Eugene R. Black, The Diplomacy of Economic Development (Cambridge: Harvard University Press, 1960), p. 68.

TABLE II

SUMMARY OF INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT OPERATIONS, 1947-1964

	(in \$ millions)																		SIX MONTH
	FY 47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	
NEW LOANS	1	5	10	12	21	19	10	26	20	26	20	34	30	31	27	29	28	22	
\$ VALUE, NEW LOANS	250	263	192	166	297	299	179	324	410	396	388	711	703	659	610	882	449	503	
\$ CUMULATIVE LOANS	250	513	.				1,590	1,914	2,324	2,720	3,100	3,819	4,522	5,181	5,791	6,673	7,121	7,622	
\$ DISBURSEMENTS	92	378	56	88	78	185	227	302	274	284	332	499	583	544	399	486	620	303	
\$ CUMULATIVE DISBURSEMENTS	92	470	526	614	692	877	1,103	1,405	1,679	1,963	2,296	2,795	3,377	3,921	4,320	4,805	5,425	5,728	
\$ REPAYMENTS (to Bank)											26	28	45	74	101	104	113		
\$ CUM. REPAYTS											191	392	501	659	849	1,075	1,319		
\$ BORROWINGS				7.0	64	175	72	221	75	-2.0	183	625	432		838	463	124	100	
\$ FUNDED DEBT OUTSTANDING		254	254	261	325	500	556	777	852	850	1,034	1,658	1,905	2,073	2,228	2,521	2,519	2,510	
NEW MEMBERS		4	4	1	1	1	3	-2	-	2	2	7	2		2	7		16	
TOTAL MEMBERS	44		48	49	50	51	54		56	58	60	67	68	68	68	75	-do-	91	
TOTAL \$ SUBSCRIPTIONS		8,286					9,037			9,050	9,268	9,405	9,545	18,800	20,100	20,500	-do-	21,100	
GROSS INCOME		18.7	21.6	25.5	31	35.2	42.8	52	58.5	63.9	74.0	99.0	122	151	167	188	204	108	
EXPENSES		14.6	11.0	11.8	15	19.3	24.3	29	33.8	34.7	38.0	57.0	76	91	103	118	121	61	
NET EARNINGS		4.1	10.6	13.7	16.1	15.9	18.5	23.2	24.7	29.2	36.0	42.0	46.5	60	64	70	83	47	
+ LOAN COMMISSIONS			5.0	5.7	6.4	7.6	9.6	11.7	13.3	14.7	17.0	20.0	24.0	27.0	28.8	30.0	31.3	16.0	
TOTAL EARNINGS			15.6	19.4	22.5	23.5	28.1	34.9	38.0	43.9	53.0	62.0	70.5	86.5	95.3	100.3	114.0	63.0	
TOT. SPECIAL RESERVES			8.0	13.7	20.1	27.7	37.2	48.9	62.2	77.0	94.0	114	138	165	194	224	255	271	
TOT. SUPPL. RESERVES							76.5			151.0	195.0	236	282	341	408	476	558	605	
TOTAL RESERVES							113.7		185.0	228	289	350	420	506	602	700	813	876	

E - Estimated Source: IBRD statements as reported in United Nations Bulletin/Review and U. S. Department of State Bulletin.

for placing income from interest and loan charges into a special and supplemental reserve (see Table II), which together total \$813 million as of June 30, 1963, or approximately 11.5 per cent of outstanding loans. This is, of course, a reserve over and above the costs to the Bank of servicing its obligations and, in consideration of the fact that to date there has not been a single default on the part of a borrower, a relatively comfortable one.

Application of Funds.

Lending Philosophy. The Articles of Agreement for the IBRD carry with them a clear intention of the degree to which the Bank must act with prudence in making or facilitating loans. In the first place, the Bank can grant a loan only with the assurance of a member nation, or an agency acting for the member nation, that the principal, interest, and other charges on the loan will be met (Article 3, Section 4). Then, after a competent committee has studied carefully the merits of the proposal and reported favorably thereon (Article 3, Section 4 (iii)), the Bank must pay due regard to the prospects that the borrower will be in a position to meet its obligations under the loan and, further, the Bank must act prudently in the interests of both the member in whose territory the project is located and all other members of the Bank (Article 3, Section 4 (v)). The Bank has adopted a very stringent interpretation concerning the intent of these founding principles; in addition, it has implemented careful procedures in order to comply fully with the requirement for insuring that loans are used only for the purposes for which granted and with due regard to considerations of

economy and efficiency without regard to political or other non-economic influences or considerations.

Lending for Development. With the initiation of new organizations for the purpose of providing massive aid for war torn nations, the Bank turned to its long run responsibility: that of encouraging economic development among its members. Here the Bank was faced with a very different set of circumstances. Instead of merely assisting the replacement of productive facilities destroyed by the war, the Bank was now confronted with the entire range of problems associated with the economic structure of backward nations. Foremost among these problems was a lack of basic services--transportation and communications and electric power--which, of themselves, precluded, to a substantial degree, the exploitation of natural resources and the attainment of efficiency in agricultural and industrial production. In a comment on its approach to lending for development purposes, the Bank has phrased the problem as follows:

...the Bank has wished to be satisfied that the economic benefits expected from a project proposed for financing have been properly evaluated, that the project is well designed for the function it is to perform, that the engineering plans have been completely drawn, that cost estimates are complete and realistic, that funds will in fact be available to cover expenditures not financed by the Bank's loan, and that the borrower has made adequate managerial and administrative arrangements, not only for building the project but for operating it once construction has been completed.⁷

Early in its operations, the Bank found that many of the proposals submitted to it for consideration were lacking in respect to the above criteria. In the words of the second President of the Bank, John J. McCloy:

⁷Ibid., p. 65.

The principal limitation upon Bank financing in the development field has not been lack of money but lack of well-prepared and well-planned projects ready for immediate execution.⁸

As a result, the Bank found that it was expected to do more than simply accept or reject a request for a loan. Given the lack of qualified and experienced governmental and business investment planners, the Bank was often in the position of offering advice on a number of aspects of a particular development project. By surveying not only the prepared plans for a project, but, by visits to the country and first-hand observation on location, the Bank commenced an advisory role involving not only economics, but engineering, transportation planning, organization, and administration. It continues in this role today. Some of its functions in this area will be examined later under the role of the Bank in development.

Purposes, Recipients of Loans. In view of the intended role of the Bank as an institution designed to encourage private investment and to loan directly only in those cases where adequate private investment was not forthcoming on reasonable terms, the Bank has accorded first priority to loans for purposes of developing the basic services within a nation which are considered essential to further economic growth. Accordingly, through fiscal year 1959, the Bank had made more loans for the development of electric power than for any other purpose. Nearly as much has been lent for purposes of highway construction, railways, ports, and other forms of transportation. A broad breakdown of this lending is shown in Table III. (Table IV provides

⁸ John J. McCloy, "The Lesson of the World Bank," Foreign Affairs, Vol. 27:4, July 1949, pp. 551-560.

TABLE III

International Bank Loans, by Purpose and Area, Cumulative

Through FY 1959

(In millions of U. S. dollars)

Purpose	Area					
	Total	Africa	Asia	Australia	Europe	Western Hemisphere
Development loans	3,929	589	1,297	318	719	934
Electric Power	1,398	178	415	29	273	503
Transportation	1,297	332	458	132	69	306
Communications	24	2				22
Agriculture and Forestry	316		68	104	88	56
Industry	689	37	281	53	271	47
General development	205	40	75		90	
Reconstruction loans	497				497	
Total	4,426	589	1,297	318	1,288	934

Source: IBRD, Fourteenth Annual Report, 1958-1959, Washington, 1959, p. 11. Data are cumulative through June 30, 1959. Amounts are net of cancellations and refundings. As cited in Water Krause, Economic Development (San Francisco: Wadsworth Publishing Company, 1961), p. 365.

TABLE IV

Initial Lending by IBRD, Reconstruction and Development

By Country and Purpose through October 30, 1949

Country	\$ Amount (Millions) (US dollars)	Date of Loan Agreement	Entity to whom Loan Granted	Purpose
France	250.0	May, 1947	Credit National, semi-public Fr. corporation; gov't guarantee	Reconstruction of economy: agriculture, in- dustrial raw mat'ls & equip't, transport, com- munications, power
Netherlands	195.0	1947	Government	Reconstruction: agricultural & industrial raw mat'ls & equip't, transport & com- munications
Denmark	40.0	1947	Government	Reconstruction: imports of es- sential capital goods, raw mat'ls
Luxembourg	12.0	1947	Government	Reconstruction: Industrial equip't: steel & RR rolling stock
Chile	16.0	Mar. 1948	Gov't agency; guaranteed	Development: hydro- electric power, agriculture ma- chinery
Netherlands	12.0	Jul. 1948	Private Dutch shipping compa- nies; gov't acted as intermediary	Reconstruction: purchase of six merchant ships
Mexico	34.1	Jan. 1949	Government agencies	Development: electric power
Brazil	75.0	Jan. 1949	Canadian corp.; guaranteed by Brazilian gov't	Development: expansion of hydro- electric power; telephone facilities

Country	\$ Amount (Millions) (US dollars)	Date of Loan Agreement	Entity to whom Loan Granted	Purpose
Belgium	16.0	Mar. 1949	Government	Reconstruction: Capital equip't for steel mills, power plant reconstruction
Netherlands	15.0	Jul. 1949	Finance Corp. of National Re- construction (HERSTELBANK) gov't guarantee	Reconstruction: capital equip't im- ports for industry
Finland	12.5	Aug. 1949	Bank of Finland gov't guarantee	Reconstruction & Development; modern- ization of woodworking industry, electric power, expansion lime- stone production for agriculture
Colombia	5.0	Aug. 1949	Colombian develop- ment bank; gov't guarantee	Development: agri- cultural machinery
India	34.0	Aug. 1949	Government	Development: railroad rehabilitation: rolling stock, boilers, spare parts
India	10.0	Sep. 1949	Government	Development: land reclamation
Yugoslavia	2.7	Oct. 1949	Government	Development: ex- pansion of timber production for intra-European export
Finland	2.3	Oct. 1949	Government	

Source: Antonin Basch, "International Bank for Reconstruction and Development, 1944-1949: A Review," International Conciliation, No. 455, November, 1949, pp. 791-827.

a detailed breakdown of early Bank lending.) It will be observed that \$497 million was the total amount advanced by the Bank for purposes of reconstruction. Loans made by the Bank to member nations in the Western Hemisphere, Asia, Africa, and Australia have all been for development. By far the bulk of the \$4,426 million of cumulative, net loans granted through June 30, 1959, have been for projects which form the category known as overhead capital or infrastructure. These projects, included in all categories except industry, are normally those which must be undertaken by governments in that returns from investment may either be relatively intangible insofar as profitability is concerned or, if actual profit can be measured, may involve such lengthy pay back as to deter private investment of sufficient magnitude.

One word of explanation concerning an altogether obvious use of capital by underdeveloped nations, but one the Bank will not finance-- social overhead investment. Such investment, in recognition of the unproductive human base within a backward nation, underwrites vital improvements in sanitation, disease and health of the people, attempts to improve housing and provide necessary training and general education. It has been the belief of the Bank that ruling power groups, at least in democratic member countries, are under strong pressure to make such social improvements and that reasonable, timely gains will occur naturally. Accordingly, by assisting the underdeveloped nations in finding capital for other non-social basic services essential to continuing economic growth, the Bank can help prevent what otherwise might be a serious oversight.

This attitude has resulted in criticism and will be appraised later in this paper.

Effect of Bank's Operations on International Economic Development.

From the wording of the Articles of Agreement,⁹ the Bank's lending has been aimed at financing specific projects rather than broad development programs. The intent was simply to prevent unproductive borrowing for which tangible results might not be readily apparent. The Bank has interpreted this restriction as requiring intensive and complete investigation into each project for which financing has been requested but also has emphasized the necessity of considering the impact of each project on the broader national development plan. By this approach, it is hoped that shortsighted sub-optimizations may be avoided and that each purpose for which funds are advanced may contribute optimally to the countries' economic advance.

The effect that this close supervisory partnership has had on the quality of development projects and programs has been significant. The potential borrower is aware that a proposal submitted to the Bank must be well conceived and meet stringent criteria as to urgency, efficiency, and expected productivity if it is to be accepted. He knows too, that in the event certain aspects of planned projects are found deficient, the Bank stands ready to provide advice from its highly competent technical staff. It is no understatement that the quality of individual projects and their

⁹Article 3, Section 1(a) and Section 4.

integration into the national pattern of development has been enhanced considerably by the Bank's meticulous attention to the many aspects of the particular project.

Technical Assistance.

In a closely associated way, the Bank has improved the quality of an individual nation's development scheme. This has been through the Bank's early adoption of the country survey mission. Recognizing that there existed in the underdeveloped nation, a number of obstacles which acted to preclude economic development, the Bank formed the general survey mission to Colombia in 1949 as a means of combining the general evaluations of a number of experts into problems of long range economic development for that nation. Comprised of a number of experts, drawn mainly from outside the Bank, the typical survey mission receives orientation in Washington, consults with officials and others concerned with the task at hand, and then returns to begin the formulation of their comprehensive report. Through correspondence and subsequent visits, the final report is likely to represent an objective, verifiable documentation of what actually exists and provide valuable perspective into what is needed for successful accomplishment of the project that is to be undertaken. The greatest challenge to the validity of such surveys is identification by the survey team with the existing institutional, social, and motivational conditions present in the particular country. For, only by accurate recognition of what is, can the survey team prescribe what should be. On the whole, the

Bank enjoys an enviable reputation in providing meaningful advice and guidance to the underdeveloped nation seeking integrated economic advance.

Quality of Investment for Development.

Although the terms under which the Bank lends are not "soft," a term which describes either a very low rate of interest compared to that available elsewhere or the long period of time over which the loan is to be amortized, the Bank has contributed to the raising of capital by nations where such capital might not otherwise be forthcoming. This has been possible because of the ability of the Bank to guarantee the soundness of the particular investment. It has been pointed out that the Bank obtains either the guarantee of the member government or an agency acting in behalf of the member government and, in this manner, can attract private capital where it would not generally be forthcoming. By its careful attention to the soundness of each loan request, the Bank has enabled member governments to enter the world capital market on their own, a condition that perhaps would not now exist or, at least would have been considerably deterred, had it not been for the endorsement of an international entity such as the Bank. Bank loans represent sound investments and return good yields from the viewpoint of large, institutional investors which, in the past, have been forced to accept secure, low yields available from domestic government issues. As an example of the confidence with which both Bank securities and those of member nations are held, the Bank, as of June 30, 1963, had sold from its own portfolio, \$1,605.3 million in principal amounts of loans to private investors, of which all but \$69

million was without the Bank's guarantee.

Economic Development Institute.

One final aspect of the Bank's contribution to economic development is its training institute--the Economic Development Institute.¹⁰ The Institute was conceived of as a means of providing, in a suitable environment, senior officials of underdeveloped countries with "...general economic propositions relevant to their work..." and to bring before them experiences of other nations as a basis for comparing the usefulness to their own circumstances. The course offered by the Institute lasts six months and, on the average, is attended by some twenty officials of underdeveloped governmental departments, development agencies, central banks, and planning authorities, each of whom is responsible in his job for the formulation and execution of policy decisions. The curriculum offered at the Institute's Eighth Course (October 1962-March 1963) is typical of those offered in the past and, in view of limited time in which to cover each area, is a very practical treatment excluding the complexities of more advanced economic analysis. The latter part of the course, seminars 6 through 9 (Table V), is presented by members of the Bank's staff, singly and in teams consisting usually of a desk officer, economist, lawyer and engineer, who draw principally on the experiences of the Bank for appropriate case materials. In addition to the seminar program, outside

¹⁰cf., John H. Adler, "The Economic Development Institute of the World Bank," International Development Review, Vol. V:1, March 1963, pp. 7-13.

TABLE V

DRAFT CURRICULUM FOR EIGHTH COURSE (October 1962 - March 1963)

SEMINAR 1: ECONOMIC POLICY AND DEVELOPMENT

- Session 1:** The Process of Economic Growth I
 2: The Process of Economic Growth II
 3: The Process of Economic Growth III
 4: National and Financial Accounts I
 5: National and Financial Accounts II
 6: The Multiplier Process
 7: Economic Statistics—Concepts, Methods and Uses
 8: The Objectives and Limitations of Programming
 9: Formulating a Development Program
 10: Choice and Economic Growth
 11: Inter-Industry Relations (Input-Output Analysis)
 12: Planning Machinery

Related Special Sessions

The Measurement of Economic Change
 Growth Theory and Growth Models
 Development Strategy

SEMINAR 2: HISTORICAL ASPECTS OF DEVELOPMENT

- Session 1:** Recent World Economic Growth
 2: Recent Economic Growth—Africa
 3: Recent Economic Growth—Asia
 4: Japanese Growth
 5: Recent Economic Growth—Latin America
 6: U. S. Growth
 7: Growth of the Soviet Economy

Related Special Sessions

Prospects for United States Economic Growth
 Italian Growth Experience

SEMINAR 3: FISCAL POLICY AND PUBLIC FINANCE

- Session 1:** Basic Considerations in Public Finance
 2: Fiscal Surpluses and Deficits
 3: Programming and the Capital Budget
 4: Problems of Taxation and Tax Reforms I
 5: Problems of Taxation and Tax Reforms II
 6: Pricing Policies of Public Enterprises
 7: Problems of Tax Administration

Related Special Sessions

The Taxation of Foreign Investment

SEMINAR 4: MONETARY POLICY

- Session 1:** The Role of Monetary Policy in Economic Growth
 2: Organization and Function of Central Bank
 3: Control of Money Supply
 4: Economics of Stabilization
 5: Development Banks
 6: A Case Study of Inflation—Chile

Related Special Sessions

The Problem of International Liquidity
 Institutions of Financial Markets
 The Policy Functions of the Federal Reserve System

SEMINAR 5: INTERNATIONAL TRADE AND FINANCE

- Session 1:** The Balance of Payments Mechanism
 2: The Balance of Payments and Economic Development
 3: The Management of the Balance of Payments
 4: Commodity Projections: Problems and Methods
 5: The Future of Coffee and Copper—Two Case Studies

- 6: Measures to Stabilize Export Proceeds
 7: International Capital Movements
 8: External Development Assistance
 9: Public Policies Toward Private Foreign Investment

Related Special Sessions

Policies and Operations of the IBRD
 International Financing of Industrial Investment (IFCI)
 The Operations of the International Monetary Fund
 The Role of GATT
 The Pattern of World Trade
 The European Common Market and Primary Producers
 United States Foreign Aid

SEMINAR 6: AGRICULTURE

- Session 1:** The Role of Agriculture in Economic Development
 2: Irrigation
 3: Research Extension and Demonstration in Agriculture
 4: Agricultural Credit
 5: Agricultural Marketing
 6: Land Reform
 7: Problems in Agricultural Programming
 8, 9 and 10: Case Studies of Agricultural Development

SEMINAR 7: INDUSTRY

- Session 1:** The Role of Industry in Economic Development
 2: Public Policies and Industrial Development
 3: Extractive Industries
 4: The Pulp and Paper Industry
 5: The Textiles Industries
 6: The Steel Industry
 7: Electric Power I
 8: Electric Power II
 9: The Role of Transportation in Economic Development

Related Special Sessions

Industrial Management
 The Role of Labor Unions

SEMINAR 8: SOCIAL FACTORS IN DEVELOPMENT

- Session 1:** The International Transmission of Skills
 2: Investment in Education
 3: The Population Problem
 4: Urbanization and Housing
 5: Manpower Problems

SEMINAR 9: PROJECT APPRAISAL

- Session 1:** Practical Problems of Project Preparation and Approval
 2: Project Evaluation I
 3: Project Evaluation II

Case

- Studies 4:** Agriculture—Irrigation (Roseires)
 5: Agriculture—Livestock Project (Chile or Uruguay)
 6: Industry—Steel (Japan)
 7: Industry—Cement (Peru)
 8: Industry—Pulp and Paper (Chile)
 9: Power (Volta—Ghana)
 10: Transportation—Port (Israel)
 11: Transportation—Roads (Ecuador)
 12: Transportation—Railroads (Nigeria)
 13: Multipurpose Project (Des-iran)

guest lecturers are brought in, group decision making problems are worked up and presented to the others for consideration, field trips are made to various industrial and agricultural and financial institutions within the United States, as well as one trip to a foreign area of active development activity, and each student prepares an individual research paper on a subject related to his work. With slightly over 160 graduates of the Institute, the primary value of the course lies in its pragmatic approach to the higher level problems of development and the opening up to individuals long on experience, some of the alternatives to specific problems which, otherwise, might pass unnoticed.

CHAPTER III

THE INTERFACE BETWEEN THE BANK AND OTHER AGENCIES ENGAGED IN INTERNATIONAL DEVELOPMENT

In the twenty years of its existence, the IBRD has increasingly shared responsibility for development financing with other agencies-- bilateral, regional, and international. Some have entered the field as the result of shifting emphasis on an original mission; others have been created to fill a specific financing need. Some, under general development assistance, serve particular unilateral political objectives; others are entirely international in organizational structure as well as in outlook. The present chapter examines some of these agencies for the purpose of determining the interface, if any, between them and the IBRD. By understanding the similarities and complementarities in operations among these organizations, better perspective will be gained with which to appraise the contributions of the IBRD to world economic development-- the subject of the concluding chapter.

International Monetary Fund.

The purpose of the International Monetary Fund (IMF), created at the Bretton Woods Conference of 1944, generally is to promote international currency stabilization among members.¹¹ In that the IMF is concerned

¹¹ Specific objectives of IMF: 1) to promote international monetary cooperation through a permanent institution for consultation and collaboration, 2) to facilitate the expansion and balanced growth of international trade, 3) to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation,

with international balances of payments and carries out short-term transactions with members, there would appear to be little inter-relationship between it and the IBRD, which is concerned with long-term loan operations for purposes of development. In addition to sharing identical member states,¹² however, the operations of the IMF do have a bearing on economic development. IMF's attitude toward development has been to stress the importance of financial stability (price and exchange rate stability) as a necessary precondition thereto. This view has required the developing country to attempt to gauge more closely the full resource requirements of a particular development program. As a result, some critics believe certain nations have, in effect, been discouraged from initiating serious development efforts of requisite magnitude.¹³ On the other hand, there is reason to believe that the IMF has been forced into the position of aiding a number of underdeveloped nations in meeting payments imbalances caused, in part, from overambitious development programs.¹⁴ In such cases, it appears that the IMF has been

4) to assist in establishment of a multilateral system of payments for current transactions and in the elimination of foreign exchange restrictions, and 5) to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members by providing funds by which the members can implement non-destructive, short-term corrective measures.

¹²cf., Appendix A, Article 6, Section 3, Articles of Agreement, IBRD.

¹³Walter Krause, Economic Development (San Francisco: Wadsworth Publishing Company, 1961), p. 377.

¹⁴Ibid., pp. 377-8.

pre-empted into an after-the-fact development loan. A second development spillover arises from the Fund's bias toward multilateralism and the elimination of exchange restrictions. Assuming all member nations to be equally industrialized and exhibiting relatively similar advantages from international trade, such an aim might receive universal endorsement. However, the underdeveloped nations traditionally have believed it necessary to exert certain degrees of exchange control, trade restrictions, subsidies, etc. If, in fact, the Fund's free trade aims are desirable, long run attainment appears to depend on short run gradualism. It is reasonable to conclude that the major implications to economic development arising out of the operations of the IMF are an increased awareness on the part of the underdeveloped nations that they cannot abdicate short run financial responsibility in the pursuit of longer term economic development.

International Finance Corporation.

Although it is a separate legal entity, the International Finance Corporation (IFC) began operations on July 24, 1956, as an affiliate of the IBRD. Its purposes are: 1) to bring together investment opportunities, domestic and foreign capital, and experienced management, and 2) in association with private investors, to assist in financing the establishment, improvement, and expansion of productive private enterprises which would contribute to the development of member countries by making investments, without the guaranty of member governments, in cases where sufficient private capital is not available on reasonable terms. Membership in the corporation is open only to members of the IBRD; each member is represented

by the same Governor on both institutions. Out of a total authorized subscription of \$100 million U. S. dollars, the IFC, by mid-1959, had a paid in capital fund of \$93.7 million on the basis of 57 member states. The U. S. subscription of \$35.2 million represents over one-third of the total subscription. While present capitalization is small, it is expected that IFC will be able to turn over its funds by selling to private investors a considerable proportion of its portfolio of profitable investment securities. To date, IFC has financed predominately industrial activities--manufacturing, processing, or mining enterprises--located mainly in underdeveloped countries. IFC prefers investments ranging from \$500,000 to \$2,000,000 and will provide funds for 5 to 15 years. Through September, 1959, IFC had entered into 28 transactions with a total loan commitment of \$25.2 million. Regional distribution of loans was: 2 in Australia, 6 in Asia, and 20 in Latin America.

IFC has served directly to stimulate private investment in productive foreign enterprise. Unlike IBRD, IFC can lend without government guarantee eliminating the alleged distasteful atmosphere into which both government and private business are otherwise forced. In addition, by providing capital on a negotiated basis ranging somewhere between loan capital and share capital (pure equity financing), IFC can ease the repayment burden on the borrower and at the same time acquire an investment portfolio particularly attractive to private investors. This flexibility is absent within IBRD. Although IFC investment is

alleged to have a multiplier effect of "...about \$3.50 of other funds for each dollar invested by IFC,"¹⁵ shortage of funds has restricted IFC to selection of only 7 per cent of the projects presented during the first two years of operation as "promising for near-term action."¹⁶ A possible source of funds with which to expand IFC capital is currency other than U. S. dollars, an idea supported by President Robert L. Garner.

International Development Association.

The latest of the international associations involved in development is the International Development Association (IDA), established in September, 1960, as an affiliate of the IBRD. Its purpose is to promote economic development, increase productivity, and thus raise standards of living among members by financing developmental requirements on terms more flexible and bearing less heavily on balance of payments than those of conventional loans. In short, the essence of IDA is to provide "soft loans"¹⁷ to members who cannot afford to incur additional foreign debt. The operating rationale was described by Eugene Black, then president of IBRD and ex-officio president of IDA:

¹⁵From an address by Robert L. Garner, delivered at the Second Annual Meeting of the Board of Governors of the IFC, New Delhi, October 8, 1958.

¹⁶New York Times, October 9, 1958, p. 53-C.

¹⁷A "soft loan" may carry no or a low interest charge; it may allow repayment over an extraordinarily long time period; or it may provide for repayment in inconvertible currency. A loan is called "soft" because it cannot meet the normal criteria by which the economic feasibility of a loan is judged.

...Although IDA will make "soft loans" in the sense they will provide for repayment obligations which impose a much lighter burden on the borrowing country's balance of payments than do loans by the Bank, IDA will not be a "soft lender"...I regard it essential that IDA, in whatever field it may operate and on whatever terms it may provide finance, shall support only sound projects of high developmental priority.¹⁸

Organizationally identical to IBRD, membership in IDA is open to members of IBRD and by June 1963, 76 countries had become members with a subscribed capital of \$969 million (total authorized subscriptions: \$1,000 million). IDA members are divided into two groups: the more industrialized countries whose entire subscriptions are paid in convertible funds (approximately \$765 million), and less developed countries, which pay only 10 per cent of their subscriptions on a freely convertible basis. As of June 1963, IDA had extended 39 credits totalling \$495 million in 18 countries. A current proposal envisions the augmentation of present resources by an additional \$750 million to be contributed by industrialized nations.

The lending operations of IDA provide a necessary supplement to those of the IBRD. By soft loans, a number of underdeveloped nations will be able to proceed with complementary development projects not otherwise possible in the face of present debt-servicing capacity. However, soft loans are not without problems. In the first place, soft loans tend to blur the distinction between loans and grants.

¹⁸Eugene Black, in a speech delivered at the 1959 Annual Meeting of the Board of Governors of IBRD, IFC and IMF, October 2, 1959

This is undesirable since underdeveloped nations must maintain creditworthiness in their attempt to achieve economic development. Secondly, and more important, the availability of soft loans may undermine hard lending by destroying the incentive for countries to meet the standards of hard lender like IBRD. In the immediate case of IDA, a great deal of confidence is attached to the fact that its operations will be directed by the IBRD which has demonstrated over time its soundness as an international lending authority. On balance, it appears that the establishment of IDA is of overriding value insofar as it provides additional flexibility in meeting the financial requirements of developing countries.

Inter-American Development Bank.

The Inter-American Development Bank (IADB) was established in January, 1960, in response to increasing sentiment voiced by Latin American nations during the 1950's concerning the value of a regional approach to the problems of economic underdevelopment. By its charter, IADB is charged with contributing to the acceleration of the process of economic development of member countries, individually and collectively. To this end, the Bank: 1) provides capital for development purposes, 2) promotes public and private investment, 3) cooperates with members toward more effective resource utilization, and 4) furnishes technical assistance in programming and planning development projects. The Bank lends from its own resources and guarantees loans made by

governments and public or private lending institutions. Total capitalization of the Bank is \$1,000 million: Ordinary Capital is \$850 million, of which \$400 million is paid in and \$450 million is an uncalled reserve; a Fund for Special Operations of \$150 million, of which half remains uncalled. The Bank intends to revolve its capital by lending to projects capable of debt self-liquidation. Loan terms are roughly comparable to those applied by regular commercial banks. The Fund for Special Operations undertakes loans for socially useful projects normally regarded as unacceptable bank risks. Terms for such projects are easier than those prescribed by the Bank and repayment in local currency is usual.

The similarity between IADB and IBRD is striking. While there is no legal or intended interrelationship between the two institutions, it is likely the IADB will take advantage of the long operating experience of IBRD. Politically, IADB presented the United States with an opportunity to afford its Western Hemisphere neighbors special recognition. Economically, opportunities appear harder to realize. The advantages offered by regionalization accrue mainly from the sharing of common physical projects dictated by geography, resource-pooling, again a matter of geographic distribution, and the potential gains from increasing returns to scale made possible by moving from domestic production and distribution to a regional pattern. The strength of a regional organization depends primarily on the degree to which the production of member nations is complementary. If complementary, one nation can help another; if competitive,

there is a naturally divisive interest which is difficult to resolve. In addition, non-complementary production patterns force the regional organization to deal with outside nations in obtaining the necessary capital ingredients for development. Accordingly, while IADB provides a desirable cohesiveness of approach, it faces significant and complex problems in accelerating Latin American development. Its success would appear to depend on the degree to which it overcomes the natural bias of focusing inward and instead, maintains a balanced outward-facing perspective.

Export-Import Bank, Development Loan Fund.

Two U. S. agencies which figure in international development are the Export-Import Bank (EXIM) and the Development Loan Fund (DLF). The former was established during the depression (February 12, 1934) to stimulate U. S. exports in order to increase domestic employment. Following WWII, when the EXIM was concerned primarily with sharing the costs of European reconstruction, operations have increasingly assumed the following character: exporter loans, to finance the movement of U. S. goods to foreign countries, loans to private business, foreign or American, to finance investment abroad, and loans to foreign governments, or agencies thereof, for purposes of development. With a total lending authority of \$9 billion,¹⁹ EXIM total authorizations for FY 1963 were \$1,474 million, of which, long-term development project loans to the less developed countries amounted to \$203.5 million. All EXIM loans are

¹⁹Increased from \$7 billion by Public Law 88-101 of August 20, 1963; EXIM's life continued until June 30, 1968.

"tied," i.e., require the borrower to make purchases from the U. S. Long-term loans are extended over a 12 to 20 year period and carry an interest rate of $5\frac{3}{4}$ per cent. As a means of stimulating U. S. exports, EXIM has been a successful operation. As an agency of development financing, admittedly a second thought stemming from the desire to capitalize political benefits, EXIM has not been so successful. Political considerations have led to shortsightedness in distribution of loans to underdeveloped nations, particularly in Africa and Asia. Loan terms are very stringent, approximating commercial terms. Finally, and of special importance to the credibility of U. S. position of international development before the rest of the world, the policy of EXIM of tying loan proceeds to purchases in the American market conflicts with the alleged U. S. policy of multilateralism. This policy fosters economic inefficiency and, in view of its absence in the operations of the IBRD and other international development agencies, does not go unnoticed by borrower nations.

The Development Loan Fund (DLF), established by the Mutual Security Act of 1957, and incorporated as a government corporation June 30, 1958, operates under the foreign policy guidance of the Secretary of State. Its purposes are: 1) to strengthen friendly foreign governments by encouraging economic development through free enterprise, 2) to minimize or eliminate barriers to the flow of private investment and international trade, 3) to facilitate creation of a climate favorable to investment of private capital, and 4) to assist free peoples to develop their economic

resources and productive capabilities. For resources, DLF looks to yearly appropriations from Congress. The DLF has had a large excess of loan applications over available funds and, on the basis of annual appropriations of between \$500 and \$700 million, will likely remain in this position in the future. Highest priority is given to sound projects, promising future development returns in the less developed nations of the free world. Loan periods range from 10 to 20 years as normal, up to a maximum of 40 years, with terms negotiated on a case-by-case basis. Generally, interest rates on basic projects, such as roads, harbors, railroads, etc., is about 3 1/2 per cent, while profit-earning projects pay about 5 3/4 per cent. In evaluating the value of the DLF as against the IBRD, advantages and disadvantages must be weighed so as to account for the fact that DLF is an instrument of U. S. foreign policy while IBRD is not. Accordingly, while easier terms would appear to be an advantage, perhaps terms are not easy enough. The U. S. has provided sizeable grants in the past. Nonetheless, there is reason to believe that easier terms offered by DLF have reduced some of the need for grants. The capability of accepting repayment in local currency contributes importantly to easing the foreign exchange pressures on many underdeveloped countries. However, the tying of loans to purchase of U. S. goods, implemented as policy by DLF in 1959, is not efficient and detracts from the aims of true international approaches to development. It is, in fact, an obvious contradiction to one of the stated purposes of DLF--minimizing barriers to international trade. Of greatest

benefit to world economic development over the long run, however, may be the contribution made by DLF toward a long-term program of bilateral U.S. assistance on a viable basis and with terms compatible with the economic pressures exerted on the U. S. economy.

CHAPTER IV

AN APPRAISAL

In an appraisal of the Bank's contribution to world economic development, it is necessary to keep its basic purposes in mind. First, it would be well to remember that, at the close of World War II, there had been no previous experience in international cooperation for financing development in the less developed areas of the world. Accordingly, the Bank embarked on a program of careful, case-by-case investigation into the development needs and possibilities surrounding each loan request. By assisting the less-developed nation in discovering the discernible obstacles to development, whether institutional, technical, or financial, the Bank instilled a degree of responsibility on the part of developing nations which considerably enhanced their credibility as long-term borrowers in the eyes of world creditor nations. By this conservative, business-like approach, the Bank was soon able to convince private capital sources in the U. S. of the soundness of its operations. As European recovery proceeded and capital again became available, the Bank successfully tapped this source of funds. In addition to floating its own securities, backed as has been pointed out by the large contingent funds of member nations, the Bank sold loans from its portfolio to other investors. Through December 31, 1963, the Bank had sold a total of about \$1.7 billion of principal loan amounts, of which only \$69 million carried the Bank's guarantee.

As member countries advance economically and become better known in the investment market, the Bank is able through its endorsement to increase investor confidence in the borrower's securities and thus induce private investment to participate directly with the borrowing nation. The more this method of financing can be used, the more the private investment market assumes its traditional role of financing development and the more Bank funds can be used for lending to underdeveloped nations which cannot at the present time borrow on long term in the commercial market. In looking back to the inter-war period, when foreign investment was at times adequate, at other times inadequate, but at all times dear, the stability afforded by an international guarantee has assuredly acted to accelerate the process of enhanced private and public foreign investment. In this regard, the Bank has contributed significantly to the underdeveloped nations' confidence that capital, in more adequate quantities and on reasonable terms, will be available to meet important developmental efforts. In performing this function, the Bank has fulfilled its primary objective of encouraging the flow of private capital for development and, at the same time, has done so in such a manner as to provide possible coordination among the numerous agencies serving similar ends. This idea is discussed in detail below.

The soundness of the Bank's operations has been alluded to previously in this paper. It is appropriate at this point to examine the Bank's concept of soundness as revealed by its periodic statements of account.

From Table II, it may be seen that in its twenty years of operation, the Bank has authorized a total of \$7.6 billion in loans. Of this total, \$5.7 billion has actually been disbursed. Significantly, not a single loan has been defaulted. It does not follow from this that borrowers have not, from time to time, met with difficulties in continuing to service their debts. They have. Defaults have been prevented by easing amortization or permitting repayment for up to three years in terms of local currencies. Nonetheless, this record is tangible evidence of the thoroughness with which the Bank considers each loan request and the validity of its appraisal of the borrower's ability to service additional debt.

During this period, the Bank has built up reserves from net earnings and loan commissions to a current total of \$875 million. This fund would be used to discharge guaranteed obligations before turning to the 80 per cent contingent liability of members. As viewed by other business ventures, the Bank is in an enviable position. Since 1949, it has plowed back into reserves a consistent 55 to 60 per cent of gross revenue. Expenses of operations have not increased. In short, there is no indication that Bank operations will be any less remunerative in the future than in the past. From data such as these it is reasonable to assume that Bank securities will, in the foreseeable future, retain the same high confidence among private and institutional investors as in the past.

More than anything else, however, this very success of the Bank has led to criticism that, by its conservative, business-like attitude, it has done substantially less for underdeveloped nations than was otherwise possible. Pursuing this criticism farther, it has been maintained that the Bank's allegation as to the limited ability of the underdeveloped nation to absorb large amounts of capital was, in effect, a means of camouflaging unrealistically high standards of loan criteria. In attempting to weigh the validity of this criticism, the reader must keep in mind the things the Bank is not designed to do. Unlike bilateral agencies which, like the Export-Import Bank or Development Loan Fund, serve development financing as an instrument of U. S. foreign policy, the Bank is international in organization, staffing, and in its outlook. It simply cannot, even if it were so tempted, permit the financing of development to become subservient to temporary accommodations in conventional diplomacy. From the outset, the limited capital and particular mission of encouraging private investment in development, afforded the Bank little choice other than to adopt a lending policy aimed at gaining the respect of and participation by third party investors, public and private. Furthermore, the Bank's assertion that underdeveloped nations had limited capital absorption capability came from operating philosophy, implicit in its charter, that individual projects must be productive, urgent, and contribute to the overall development prospects for the particular nation. In this perspective, then, a reasonably good case can be built in support of the Bank's operating policies.

As for social overhead types of projects (sanitation, medical facilities, education and training which, from a profit point of view are not justifiable but, indeed, are essential in establishing the conditions on which further growth and higher capital absorption is possible), the unwillingness of the Bank to lend funds for these purposes, as discussed above, in no way limits the substantial contribution the Bank has made in these areas through its country survey missions, technical assistance, and Development Training Institute. Such projects must be integrated into the national development program as surely as those projects from which tangible capital returns are expected.

Another essential ingredient concerning a borrower's ability to absorb more capital is the attendant burden placed on servicing the additional debt. The Bank, by dealing in hard currencies, remained very much aware of each borrower's capacity to assume additional foreign exchange debt and it is reasonable that its thumb rule of 10 per cent of national income as an upper limit on debt servicing capacity provided a realistic target. It is likely that world development will benefit in the long run if early overoptimism over rapid economic advance is tempered by the realism of financial responsibility.

In view of recent trends toward more flexible lending--longer periods of amortization, lower terms of interest--and renewed interest in regional development organizations, is it possible the Bank will be phased out in the near future as having served its purpose? Possible, but in this writer's opinion, quite remote anytime within the next

generation. For the purpose of the Bank is to encourage private capital flow to nations requiring same for development of productive enterprises. (Reconstruction loans have not formed an important part of the Bank's operations since the early 1950's and, unless major armed conflict again takes place, will not be a part of the Bank's future operations.) The course of national development requires large amounts of capital during the initial stages; indications are that the demand for capital will far exceed the supply of loanable funds for many years in the future. On this basis alone, there will be sufficient demand by less-developed nations to keep all existing development agencies in constant search of available capital. But, as learned over time by the Bank, successful economic development requires more than foreign capital. It is in the area of technical assistance, project analysis and guidance, and efficient integration of particular projects into national development programs, that the Bank has assumed a position of preeminence which sets it apart from other development agencies.

Advisory Role.

A recent example illustrates the prominence of the Bank as an advisory body in development planning, a role likely to assume greater importance in the future. At the request of the government of Iran, the Bank was asked to review its third development plan running from September, 1962 to March, 1968. The 10-man mission from the Bank was to evaluate the scope and composition of the plan, its financial

requirements, and the measures and policies in carrying it out. Specifically, the mission:

...was to examine the allocation of investment funds among the major sections of the economy; the status of projects being prepared as part of the program; the capabilities of the planning and executing agencies; and organizational and institutional measures proposed to carry out the program.

In addition, the mission would assess the economic consequences of the program to the growth and external viability of the Iranian economy.²⁰

In a role closely associated with above, the Bank has acted as the nucleus of an international financing consortium when a particularly large development project has been proposed. For example, the Bank's concurrence and participation in Ghana's Volta River dam and hydroelectric power project led to U. S. and U. K. participation in addition to that of the Bank and Ghana. Together with the Bank, which is providing \$47 million, is the U. S. Agency for International Development, providing \$27 million, the EXIM, providing \$10 million, the U. K. Export Credits Guarantee Department, providing \$14 million, and the government of Ghana, which is putting up \$98 million of its own resources. Power from the project will operate an aluminum smelter, to be constructed and operated by Kaiser and Reynolds Aluminum Companies, with guarantees from the U. S. government. Power will be supplied to Accra and towns, villages, and mines of southern Ghana.

²⁰ "Missions and Loans by the World Bank," United Nations Review, Vol. 9:3, March, 1962, p. 36.

Clearing House Role.

There is a final direction in which the Bank may tend to develop in the future. It has been illustrated how the establishment of agencies offering loans on soft terms has permitted a number of countries to assume greater debt than would otherwise be possible under hard terms. The proliferation of lending agencies has created a need for coordination among lenders as to the particular country's capacity to service additional debt, the general scale of investment priorities within the country, compatibility of the proposed project with the overall development scheme, all of which must be based on current, accurate appraisals of existing economic, social, and political conditions. In view of the closeness with which the Bank continues to supervise application of its loans, the rapport it has established with the lesser developed countries, and the considerable expertise obtained through the survey mission type of operation, the Bank occupies a natural position to assume such a clearinghouse function in the future. In this role, the Bank would validate, investigate, and provide its appraisal of a particular nation's creditworthiness and project validity. It may be that with time, the Bank will assume a role in development similar to that of the IMF which, in the case of monetary, fiscal, and economic policy, makes policy recommendations to member governments concerning both short and long-term internal and external stability. To a degree, it could be said that the Bank now does this in the case of certain countries. Over time, it may assume such a central role with other development financing agencies as well.

By way of summary, it has been pointed out that the presence of an international institution which, by means of member subscriptions, can guarantee the risk of foreign investment has contributed significantly toward an earlier and higher level of foreign investment than would have been reasonable to assume were such an institution not present. Dedicated to a strict interpretation of its charter, the Bank has steadfastly held each potential loan project up to tests of urgency and priority and sought assurance by first hand observation, that the project was integrated into the overall development scheme of the particular nation. Unquestionably, such an approach has fostered economic responsibility on the part of the less developed countries and focused attention to a more orderly unfolding of the development process. By other means, principally technical assistance, the Economic Development Institute, and the country survey mission, the Bank has enhanced the quality of individual approaches to development. From the experience of the Bank, it has been recognized that additional flexibilities in financing development were desirable. Accordingly, IFC, IDA, DLF, and IADB have been created, each serving a need different from that for which the IBRD was established yet each integral to the world financing of development. The magnitude and complexity of development, coupled with the high priority accorded it by the underdeveloped world, will undoubtedly lead to further refinements in financing its cost. In no small sense, the efficiency with which the task is executed will depend on the degree to which the operating philosophy and extensive experience of the International Bank for Reconstruction and Development are incorporated into the future world organizational structure.

APPENDIX A

ARTICLES OF AGREEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND

DEVELOPMENT

DECEMBER 22, 1945

1. Purposes

2. Membership in and Capital of the Bank

Sec. 1. Membership

2. Authorized capital
3. Subscription of shares
4. Issue price of shares
5. Division and calls of subscribed capital
6. Limitation on liability
7. Method of payment of subscriptions for shares
8. Time of payment of subscriptions
9. Maintenance of value of certain currency holdings of the Bank
10. Restriction on disposal of shares

3. General Provisions Relating to Loans and Guarantees

Sec. 1. Use of resources

2. Dealings between members and the Bank
3. Limitations on guarantees and borrowings of the Bank
4. Conditions on which the Bank may guarantee or make loans
5. Use of loans guaranteed, participated in or made by the Bank

4. Operations

Sec. 1. Methods of making or facilitating loans

2. Availability and transferability of currencies
3. Provision of currencies for direct loans
4. Payment provisions for direct loans
5. Guarantees
6. Special reserve
7. Methods of meeting liabilities of the Bank in case of defaults
8. Miscellaneous operations
9. Warning to be placed on securities
10. Political activity prohibited

5. Organization and Management

Sec. 1. Structure of the Bank

2. Board of Governors
3. Voting
4. Executive Directors
5. President and staff
6. Advisory Council
7. Loan committees
8. Relationship to other international organizations
9. Location of offices
10. Regional offices and councils
11. Depositories
12. Form of holdings of currency
13. Publication of reports and provision of information
14. Allocation of net income

6. Withdrawal and suspension of membership: suspension of operations

Sec. 1. Right of members to withdraw

2. Suspension of membership
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4. Settlement of accounts with governments ceasing to be members
5. Suspension of operations and settlement of obligations

7. Status, immunities and privileges

Sec. 1. Purposes of article

2. Status of the Bank
3. Position of the Bank with regard to judicial process
4. Immunity of assets from seizure
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8. Immunities and privileges for officers and employees
9. Immunities from taxation
10. Application of article

8. Amendments

9. Interpretation

10. Approval Deemed Given

11. Final Provisions

Sec. 1. Entry into force

2. Signature
3. Inauguration of the Bank

Schedule A - Subscriptions

Schedule B - Election of Executive Directors

ARTICLES OF AGREEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

December 22, 1945

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

The International Bank for Reconstruction and Development is established and shall operate in accordance with the following provisions:

Purposes

Art. 1. The purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

Membership in and Capital of the Bank

Art. 2. Section 1. Membership

a) The original members of the Bank shall be those members of the

(Art. 2, contin.)

International Monetary Fund which accept membership in the Bank before the date specified in Article XI, Section 2 (e).

(b) Membership shall be open to other members of the Fund, at such times and in accordance with such terms as may be prescribed by the Bank.

Section 2. Authorized capital

(a) The authorized capital stock of the Bank shall be \$ 10,000,000,000, in terms of United States dollars of the weight and fineness in effect on July 1, 1944. The capital stock shall be divided into 100,000 shares having a par value of \$ 100,000 each, which shall be available for subscription only by members.

(b) The capital stock may be increased when the Bank deems it advisable by a three-fourths majority of the total voting power.

Section 3. Subscription of shares

(a) Each member shall subscribe shares of the capital stock of the Bank. The minimum number of shares to be subscribed by the original members shall be those set forth in Schedule A. The minimum number of shares to be subscribed by other members shall be determined by the Bank, which shall reserve a sufficient portion of its capital stock for subscription by such members.

(b) The Bank shall prescribe rules laying down the conditions under which members may subscribe shares of the authorized capital stock of the Bank in addition to their minimum subscriptions.

(c) If the authorized capital stock of the Bank is increased, each member shall have a reasonable opportunity to subscribe, under such conditions as the Bank shall decide, a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe any part of the increased capital.

Section 4. Issue price of shares

Shares included in the minimum subscriptions of original members shall be issued at par. Other shares shall be issued at par unless the Bank by a majority of the total voting power decides in special circumstances to issue them on other terms.

Section 5. Division and calls of subscribed capital

The subscription of each member shall be divided into two parts as follows:

- (i) twenty percent shall be paid or subject to call under Section 7 (i) of this Article as needed by the Bank for its operations;
- (ii) the remaining eighty percent shall be subject to call by the Bank only when required to meet obligations of the Bank created under Article 4, Sections 1 (a) (ii) and (iii).

Calls on unpaid subscriptions shall be uniform on all shares.

(Art. 2, contin.)

Section 6. Limitation on liability

Liability on shares shall be limited to the unpaid portion of the issue price of the shares.

Section 7. Method of payment of subscriptions for shares

Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members as follows:

- (i) under Section 5 (i) of this Article, two percent of the price of each share shall be payable in gold or United States dollars, and, when calls are made, the remaining eighteen percent shall be paid in the currency of the member;
- (ii) when a call is made under Section 5 (ii) of this Article, payment may be made at the option of the member either in gold, in United States dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made;
- (iii) when a member makes payments in any currency under (i) and (ii) above, such payments shall be made in amounts equal in value to the member's liability under the call. This liability shall be a proportionate part of the subscribed capital stock of the Bank as authorized and defined in Section 2 of this Article.

Section 8. Time of payment of subscriptions

(a) The two percent payable on each share in gold or United States dollars under Section 7 (i) of this Article, shall be paid within sixty days of the date on which the Bank begins operations, provided that

- (i) any original member of the Bank whose metropolitan territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half percent until five years after that date;
- (ii) an original member who cannot make such a payment because it has not recovered possession of its gold reserves which are still seized or immobilized as a result of the war may postpone all payment until such date as the Bank shall decide.

(b) The remainder of the price of each share payable under Section 7 (i) of this Article shall be paid as and when called by the Bank, provided that

- (i) the Bank shall, within one year of its beginning operations, call not less than eight percent of the price of the share in addition to the payment of two percent referred to in (a) above;
- (ii) not more than five percent of the price of the share shall be called in any period of three months.

Section 9. Maintenance of value of certain currency holdings of the Bank

(a) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member which is held by the Bank and derived from currency originally paid in to the Bank by the member under Article II, Section 7 (i), from currency referred to in Article IV, Section 2 (b); or from any additional

currency furnished under the provisions of the present paragraph, and which has not been repurchased by the member for gold or for the currency of any member which is acceptable to the Bank.

(b) Whenever the par value of a member's currency is increased, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency described in (a) above.

(c) The provisions of the preceding paragraphs may be waived by the Bank when a uniform proportionate change in the par values of the currencies of all its members is made by the International Monetary Fund.

Section 10. Restriction on disposal of shares

Shares shall not be pledged or encumbered in any manner whatever and they shall be transferable only to the Bank.

General Provisions Relating to Loans and Guarantees

Art. 3. Section 1. Use of resources

(a) The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike.

(b) For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

Section 2. Dealings between members and the Bank

Each member shall deal with the Bank only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies.

Section 3. Limitations on guarantees and borrowings of the Bank

The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

Section 4. Conditions on which the Bank may guarantee or make loans

The Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:

(i) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(Art. 3, contin.)

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

Section 5. Use of loans guaranteed, participated in or made by the Bank

(a) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(b) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

Operations

Art. 4. Section 1. Methods of making or facilitating loans

(a) The Bank may make or facilitate loans which satisfy the general conditions of Article 3 in any of the following ways:

(i) By making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus and, subject to Section 6 of this Article, to its reserves.

(ii) By making or participating in direct loans out of funds raised in the market of a member, or otherwise borrowed by the Bank.

(iii) By guaranteeing in whole or in part loans made by private investors through the usual investment channels.

(b) The Bank may borrow funds under (a) (ii) above or guarantee loans under (a) (iii) above only with the approval of the member in whose markets the funds are raised and the member in whose currency the loan is denominated, and only if those members agree that the proceeds may be exchanged for the currency of any other member without restriction.

(Art. 4, contin.)

Section 2. Availability and transferability of currencies

(a) Currencies paid into the Bank under Article 2, Section 7 (i) shall be loaned only with the approval in each case of the member whose currency is involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(b) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made with currencies referred to in (a) above shall be exchanged for the currencies of other members or reloaned only with the approval in each case of the members whose currencies are involved; provided, however, that if necessary after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(c) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made by the Bank under Section 1 (a) (ii) of this Article, shall be held and used, without restriction by the members, to make amortization payments or to anticipate payment of or repurchase part or all of the Bank's own obligations.

(d) All other currencies available to the Bank, including those raised in the market or otherwise borrowed under Section 1 (a) (ii) of this Article, those obtained by the sale of gold, those received as payments of interest and other charges for direct loans made under Sections 1 (a) (i) and (ii), and those received as payments of commissions and other charges under Section 1 (a) (iii), shall be used or exchanged for other currencies or gold required in the operations of the Bank without restriction by the members whose currencies are offered.

(e) Currencies raised in the markets of members by borrowers on loans guaranteed by the Bank under Section 1 (a) (iii) of this Article, shall also be used or exchanged for other currencies without restriction by such members.

Section 3. Provision of currencies for direct loans

The following provisions shall apply to direct loans under Sections 1 (a) (i) and (ii) of this Article:

(a) The Bank shall furnish the borrower with such currencies of members, other than the member in whose territories the project is located, as are needed by the borrower for expenditures to be made in the territories of such other members to carry out the purposes of the loan.

(b) The Bank may, in exceptional circumstances when local currency

(Art. 4, *contin.*)

required for the purposes of the loan cannot be raised by the borrower on reasonable terms, provide the borrower as part of the loan with an appropriate amount of that currency.

(c) The Bank, if the project gives rise indirectly to an increased need for foreign exchange by the member in whose territories the project is located, may in exceptional circumstances provide the borrower as part of the loan with an appropriate amount of gold or foreign exchange not in excess of the borrower's local expenditure in connection with the purposes of the loan.

(d) The Bank may, in exceptional circumstances, at the request of a member in whose territories a portion of the loan is spent, repurchase with gold or foreign exchange a part of that member's currency thus spent but in no case shall the part so repurchased exceed the amount by which the expenditure of the loan in those territories gives rise to an increased need for foreign exchange.

Section 4. Payment provisions for direct loans

Loan contracts under Section 1 (a) (i) or (ii) of this Article shall be made in accordance with the following payment provisions:

(a) The terms and conditions of interest and amortization payments, maturity and dates of payment of each loan shall be determined by the Bank. The Bank shall also determine the rate and any other terms and conditions of commission to be charged in connection with such loan.

In the case of loans made under Section 1 (a) (ii) of this Article during the first ten years of the Bank's operations, this rate of commission shall be not less than one percent per annum and not greater than one and one-half percent per annum, and shall be charged on the outstanding portion of any such loan. At the end of this period of ten years, the rate of commission may be reduced by the Bank with respect both to the outstanding portions of loans already made and to future loans, if the reserves accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(b) All loan contracts shall stipulate the currency or currencies in which payments under the contract shall be made to the Bank. At the option of the borrower, however, such payments may be made in gold, or subject to the agreement of the Bank, in the currency of a member other than that prescribed in the contract.

(i) In the case of loans made under Section 1 (a) (i) of this Article, the loan contracts shall provide that payments to the Bank of interest, other charges and amortization shall be made in the currency loaned, unless the member whose currency is loaned agrees that such payments shall be made in some other specified currency or currencies. These payments, subject to the provisions of Article 2, Section 9 (c), shall be equivalent to the value of such contractual payments at the time the loans were made, in terms of a currency specified for the purpose by the Bank by a three-fourths majority of the total voting power.

(ii) In the case of loans made under Section 1 (a) (ii) of this Article, the

(Art. 4, *contin.*)

total amount outstanding and payable to the Bank in any one currency shall at no time exceed the total amount of the outstanding borrowings made by the Bank under Section 1 (a) (ii) and payable in the same currency.

(c) If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both of the following paragraphs with respect to the whole, or part, of the annual service:

(i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.

(ii) The Bank may modify the terms of amortization or extend the life of the loan, or both.

Section 5. Guarantees

(a) In guaranteeing a loan placed through the usual investment channels the Bank shall charge a guarantee commission payable periodically on the amount of the loan outstanding at a rate determined by the Bank. During the first ten years of the Bank's operations, this rate shall be not less than one percent per annum and not greater than one and one-half percent per annum. At the end of this period of ten years, the rate of commission may be reduced by the Bank with respect both to the outstanding portions of loans already guaranteed and to future loans if the reserves accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(b) Guarantee commissions shall be paid directly to the Bank by the borrower.

(c) Guarantees by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

(d) The Bank shall have power to determine any other terms and conditions of the guarantee.

Section 6. Special reserve

The amount of commissions received by the Bank under Sections 4 and 5 of this Article shall be set aside as a special reserve, which shall be kept available for meeting liabilities of the Bank in accordance with Section

(Art. 1, contin.)

7 of this Article. The special reserve shall be held in such liquid form, permitted under this Agreement, as the Executive Directors may decide.

Section 7. Methods of meeting liabilities of the Bank in case of defaults

In case of default on loans made, participated in, or guaranteed by the Bank:

(a) The Bank shall make such arrangements as may be feasible to adjust the obligations under the loans, including arrangements under or analogous to those provided in Section 4 (c) of this Article.

(b) The payments in discharge of the Bank's liabilities on borrowings or guarantees under Section 1 (a) (ii) and (iii) of this Article shall be charged:

(i) first, against the special reserve provided in Section 6 of this Article.

(ii) then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

(c) Whenever necessary to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it, the Bank may call an appropriate amount of the unpaid subscriptions of members in accordance with Article 2, Sections 5 and 7. Moreover if it believes that a default may be of long duration, the Bank may call an additional amount of such unpaid subscriptions not to exceed in any one year one percent of the total subscriptions of the members for the following purposes:

(i) To redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default.

(ii) To repurchase, or otherwise discharge its liability on, all or part of its own outstanding borrowings.

Section 8. Miscellaneous operations

In addition to the operations specified elsewhere in this Agreement, the Bank shall have the power:

(i) To buy and sell securities it has issued and to buy and sell securities which it has guaranteed or in which it has invested, provided that the Bank shall obtain the approval of the member in whose territories the securities are to be bought or sold.

(ii) To guarantee securities in which it has invested for the purpose of facilitating their sale.

(iii) To borrow the currency of any member with the approval of that member.

(iv) To buy and sell such other securities as the Directors by a three-fourths majority of the total voting power may deem proper for the investment of all or part of the special reserve under Section 6 of this Article.

In exercising the powers conferred by this Section, the Bank may deal with any person, partnership, association, corporation or other legal entity in the territories of any member.

Section 9. Warning to be placed on securities

Every security guaranteed or issued by the Bank shall bear on its face a

(Art. 4, *contin.*)

conspicuous statement to the effect that it is not an obligation of any government unless expressly stated on the security.

Section 10. Political activity prohibited

The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article 1.

Organization and Management

Art. 5. Section 1. Structure of the Bank

The Bank shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Bank may determine.

Section 2. Board of Governors

(a) All the powers of the Bank shall be vested in the Board of Governors consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

- (i) Admit new members and determine the conditions of their admission;
- (ii) Increase or decrease the capital stock;
- (iii) Suspend a member;
- (iv) Decide appeals from interpretations of this Agreement given by the Executive Directors;
- (v) Make arrangements to co-operate with other international organizations (other than informal arrangements of a temporary and administrative character);
- (vi) Decide to suspend permanently the operations of the Bank and to distribute its assets;
- (vii) Determine the distribution of the net income of the Bank.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

(e) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Board.

(Art. 5, *contin.*)

(f) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.

(g) Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending meetings.

(h) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the President.

Section 3. Voting

(a) Each member shall have two hundred fifty votes plus one additional vote for each share of stock held.

(b) Except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast.

Section 4. Executive Directors

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Bank, and for this purpose, shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be twelve Executive Directors, who need not be governors and of whom:

(i) five shall be appointed, one by each of the five members having the largest number of shares;

(ii) seven shall be elected according to Schedule B by all the Governors other than those appointed by the five members referred to in (i) above.

For the purpose of this paragraph, "members" means governments of countries whose names are set forth in Schedule A, whether they are original members or become members in accordance with Article 2, Section 1 (b). When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the total number of directors by increasing the number of directors to be elected.

Executive directors shall be appointed or elected every two years.

(c) Each executive director shall appoint an alternate with full power to act for him when he is not present. When the executive directors appointing them are present, alternates may participate in meetings but shall not vote.

(d) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the governors who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(e) The Executive Directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank may require.

(Art. 5, contin.)

(f) A quorum for any meeting of the Executive Directors shall be a majority of the Directors, exercising not less than one-half of the total voting power.

(g) Each appointed director shall be entitled to cast the number of votes allotted under Section 3 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted toward his election. All the votes which a director is entitled to cast shall be cast as a unit.

(h) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(i) The Executive Directors may appoint such committees as they deem advisable. Membership of such committees need not be limited to governors or directors or their alternates.

Section 5. President and staff

(a) The Executive Directors shall select a President who shall not be a governor or an executive director or an alternate for either. The President shall be Chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The President shall cease to hold office when the Executive Directors so decide.

(b) The President shall be chief of the operating staff of the Bank and shall conduct, under the direction of the Executive Directors, the ordinary business of the Bank. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the officers and staff.

(c) The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(d) In appointing the officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 6. Advisory Council

(a) There shall be an Advisory Council of not less than seven persons selected by the Board of Governors including representatives of banking, commercial, industrial, labor, and agricultural interests, and with as wide a national representation as possible. In those fields where specialized international organizations exist, the members of the Council representative of those fields shall be selected in agreement with such organizations. The Council shall advise the Bank on matters of general policy. The

(Art. 5, *contin.*)

Council shall meet annually and on such other occasions as the Bank may request.

(b) Councillors shall serve for two years and may be reappointed. They shall be paid their reasonable expenses incurred on behalf of the Bank.

Section 7. Loan Committees

The committees required to report on loans under Article 3, Section 4, shall be appointed by the Bank. Each such committee shall include an expert selected by the governor representing the member in whose territories the project is located and one or more members of the technical staff of the Bank.

Section 8. Relationship to other international organizations

(a) The Bank, within the terms of this Agreement, shall co-operate with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such co-operation which would involve a modification of any provision of this Agreement may be affected only after amendment to this Agreement under Article 8.

(b) In making decisions on applications for loans or guarantees relating to matters directly within the competence of any international organization of the types specified in the preceding paragraph and participated in primarily by members of the Bank, the Bank shall give consideration to the views and recommendations of such organization.

Section 9. Location of offices

(a) The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares.

(b) The Bank may establish agencies or branch offices in the territories of any member of the Bank.

Section 10. Regional offices and councils

(a) The Bank may establish regional offices and determine the location of, and the areas to be covered by, each regional office.

(b) Each regional office shall be advised by a regional council representative of the entire area and selected in such manner as the Bank may decide.

Section 11. Depositories

(a) Each member shall designate its central bank as a depository for all the Bank's holdings of its currency or, if it has no central bank, it shall designate such other institution as may be acceptable to the Bank.

(b) The Bank may hold other assets, including gold, in depositories designated by the five members having the largest number of shares and in such other designated depositories as the Bank may select. Initially, at least one-half of the gold holdings of the Bank shall be held in the depository designated by the member in whose territory the Bank has its principal office, and at least forty percent shall be held in the depositories designated by the remaining four members referred to above, each of

(Art. 5, *contin.*)

such depositories to hold, initially, not less than the amount of gold paid on the shares of the member designating it. However, all transfers of gold by the Bank shall be made with due regard to the costs of transport and anticipated requirements of the Bank. In an emergency the Executive Directors may transfer all or any part of the Bank's gold holdings to any place where they can be adequately protected.

Section 12. Form of holdings of currency

The Bank shall accept from any member, in place of any part of the member's currency, paid in to the Bank under Article 2, Section 7 (i), or to meet amortization payments on loans made with such currency, and not needed by the Bank in its operations, notes or similar obligations issued by the Government of the member or the depository designated by such member, which shall be non-negotiable, non-interest-bearing and payable at their par value on demand by credit to the account of the Bank in the designated depository.

Section 13. Publication of reports and provision of information

(a) The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to members at intervals of three months or less a summary statement of its financial position and a profit and loss statement showing the results of its operations.

(b) The Bank may publish such other reports as it deems desirable to carry out its purposes.

(c) Copies of all reports, statements and publications made under this section shall be distributed to members.

Section 14. Allocation of net income

(a) The Board of Governors shall determine annually what part of the Bank's net income, after making provision for reserves, shall be allocated to surplus and what part, if any, shall be distributed.

(b) If any part is distributed, up to two percent non-cumulative shall be paid, as a first charge against the distribution for any year, to each member on the basis of the average amount of the loans outstanding during the year made under Article 4, Section 1 (a) (i), out of currency corresponding to its subscription. If two percent is paid as a first charge, any balance remaining to be distributed shall be paid to all members in proportion to their shares. Payments to each member shall be made in its own currency, or if that currency is not available in other currency acceptable to the member. If such payments are made in currencies other than the member's own currency, the transfer of the currency and its use by the receiving member after payment shall be without restriction by the members.

Withdrawal and Suspension of Membership: Suspension of Operations

Art. 6. Section 1. Right of members to withdraw

Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date such notice is received.

(Art. 6, *contin.*)

Section 2. Suspension of membership

If a member fails to fulfill any of its obligations to the Bank, the Bank may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all obligations.

Section 3. Cessation of membership in International Monetary Fund

Any member which ceases to be a member of the International Monetary Fund shall automatically cease after three months to be a member of the Bank unless the Bank by three-fourths of the total voting power has agreed to allow it to remain a member.

Section 4. Settlement of accounts with governments ceasing to be members

(a) When a government ceases to be a member, it shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the Bank and to share either in the income or the expenses of the Bank.

(b) At the time a government ceases to be a member, the Bank shall arrange for the repurchases of its shares as a part of the settlement of accounts with such government in accordance with the provisions of (c) and (d) below. For this purpose the repurchase price of the shares shall be the value shown by the books of the Bank on the day the government ceases to be a member.

(c) The payment for shares repurchased by the Bank under this section shall be governed by the following conditions:

(i) Any amount due to the government for its shares shall be withheld so long as the government, its central bank or any of its agencies remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the liability of the government resulting from its subscription for shares under Article 2, Section 5 (ii). In any event, no amount due to a member for its shares shall be paid until six months after the date upon which the government ceases to be a member.

(ii) Payments for shares may be made from time to time, upon their surrender by the government, to the extent by which the amount due as the repurchase price in (b) above exceeds the aggregate of liabilities on loans and guarantees in (c) (i) above until the former member has received the full repurchase price.

(iii) Payments shall be made in the currency of the country receiving payment or at the option of the Bank in gold.

(iv) If losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the date when the government ceased to be a member, and the amount of such losses exceeds

(Art. 6, *contin.*)

the amount of the reserve provided against losses on the date when the government ceased to be a member, such government shall be obligated to repay upon demand the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined. In addition, the former member government shall remain liable on any call for unpaid subscriptions under Article 2, Section 5 (ii), to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

(d) If the Bank suspends permanently its operations under Section 5 (b) of this Article, within six months of the date upon which any government ceases to be a member, all rights of such government shall be determined by the provisions of Section 5 of this Article.

Section 5. Suspension of operations and settlement of obligations

(a) In an emergency the Executive Directors may suspend temporarily operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Board of Governors.

(b) The Bank may suspend permanently its operations in respect of new loans and guarantees by vote of a majority of the Governors, exercising a majority of the total voting power. After such suspension of operations the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation, and preservation of its assets and settlement of its obligations.

(c) The liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their own currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

(d) All creditors holding direct claims shall be paid out of the assets of the Bank, and then out of payments to the Bank on calls on unpaid subscriptions. Before making any payments to creditors holding direct claims, the Executive Directors shall make such arrangements as are necessary, in their judgment, to insure a distribution to holders of contingent claims ratably with creditors holding direct claims.

(e) No distribution shall be made to members on account of their subscriptions to the capital stock of the Bank until

(i) all liabilities to creditors have been discharged or provided for, and

(ii) a majority of the Governors, exercising a majority of the total voting power, have decided to make a distribution.

(f) After a decision to make a distribution has been taken under (e) above, the Executive Directors may by a two-thirds majority vote make successive distributions of the assets of the Bank to members until all of the assets have been distributed. This distribution shall be subject to the prior settlement of all outstanding claims of the Bank against each member.

(g) Before any distribution of assets is made, the Executive Directors shall fix the proportionate share of each member according to the ratio of its shareholding to the total outstanding shares of the Bank.

(Art. 6, *contin.*)

(h) The Executive Directors shall value the assets to be distributed as at the date of distribution and then proceed to distribute in the following manner:

(i) There shall be paid to each member in its own obligations or those of its official agencies or legal entities within its territories, in so far as they are available for distribution, an amount equivalent in value to its proportionate share of the total amount to be distributed.

(ii) Any balance due to a member after payment has been made under (i) above shall be paid, in its own currency, in so far as it is held by the Bank, up to an amount equivalent in value to such balance.

(iii) Any balance due to a member after payment has been made under (i) and (ii) above shall be paid in gold or currency acceptable to the member, in so far as they are held by the Bank, up to an amount equivalent in value to such balance.

(iv) Any remaining assets held by the Bank after payments have been made to members under (i), (ii) and (iii) above shall be distributed *pro rata* among the members.

(i) Any member receiving assets distributed by the Bank in accordance with (h) above, shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Status, Immunities and Privileges

Art. 7. Section 1. Purposes of Article

To enable the Bank to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Bank in the territories of each member.

Section 2. Status of the Bank

The Bank shall possess full juridical personality, and, in particular, the capacity:

- (i) to contract;
- (ii) to acquire and dispose of immovable and movable property;
- (iii) to institute legal proceedings.

Section 3. Position of the Bank with regard to judicial process

Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Section 4. Immunity of assets from seizure

Property and assets of the Bank, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. Immunity of archives

The archives of the Bank shall be inviolable.

(Art. 7, *contin.*)

Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. Privilege for communications

The official communications of the Bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. Immunities and privileges of officers and employees

All governors, executive directors, alternates, officers and employees of the Bank

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Bank waives this immunity;

(ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. Immunities from taxation

(a) The Bank, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Bank shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to executive directors, alternates, officials or employees of the Bank who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Bank (including any dividend or interest thereon) by whomsoever held—

(i) which discriminates against such obligation or security solely because it is issued by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

(d) No taxation of any kind shall be levied on any obligation or security guaranteed by the Bank (including any dividend or interest thereon) by whomsoever held—

(i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

(Art. 7, *contin.*)

Section 10. Application of Article

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Bank of the detailed action which it has taken.

Amendments

Art. 8. (a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Bank shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendments, the Bank shall certify the fact by formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Bank provided in Article 6, Section 1;
- (ii) the right secured by Article 2, Section 3 (c);
- (iii) the limitation on liability provided in Article 2, Section 6.

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

Interpretation

Art. 9. (a) Any question of interpretation of the provisions of this Agreement arising between any member and the Bank or between any members of the Bank shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director, it shall be entitled to representation in accordance with Article 5, Section 4 (h).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board, the Bank may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Bank and a country which has ceased to be a member, or between the Bank and any member during the permanent suspension of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Bank, another by the country involved and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Bank. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Approval Deemed Given

Art. 10. Whenever the approval of any member is required before any act may be done by the Bank, except in Article 8, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

Final Provisions

Art. 11. Section 1. Entry into force

This Agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than sixty-five percent of the total subscription set forth in Schedule A and when the instruments referred to in Section 2 (a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Bank as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article 2, Section 1 (b), of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of the price of each share in gold or United States dollars for the purpose of meeting administrative expenses of the Bank. This payment shall be credited on account of the payment to be made in accordance with Article 2, Section 8 (a). The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Bank when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature

(Art. 11, contin.)

on behalf of the government of any country whose membership has been approved in accordance with Article 2, Section 1 (b).

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred and eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period, the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

Section 3. Inauguration of the Bank

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries, to which the largest number of shares are allocated in Schedule A, shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships which they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule B and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

(d) The Bank shall notify members when it is ready to commence operations.

DONE at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article 2, Section 1 (b).

SCHEDULE A

Subscriptions

	<i>(millions of dollars)</i>		<i>(millions of dollars)</i>
Australia	200	India	400
Belgium	225	Iran	24
Bolivia	7	Iraq	6
Brazil	105	Liberia	.5
Canada	325	Luxembourg	10
Chile	35	Mexico	65
China	600	Netherlands	275
Colombia	35	New Zealand	50
Costa Rica	2	Nicaragua	.8
Cuba	35	Norway	50
Czechoslovakia	125	Panama	.2
¹ Denmark		Paraguay	.8
Dominican Republic	2	Peru	17.5
Ecuador	3.2	Philippine Commonwealth	15
Egypt	40	Poland	125
El Salvador	1	Union of South Africa	100
Ethiopia	3	Union of Soviet Socialist	
France	450	Republics	1200
Greece	25	United Kingdom	1300
Guatemala	2	United States	3175
Haiti	2	Uruguay	10.5
Honduras	1	Venezuela	10.5
Iceland	1	Yugoslavia	40
		Total	9100

¹ The quota of Denmark shall be determined by the Bank after Denmark accepts membership in accordance with these Articles of Agreement.

SCHEDULE B

Election of Executive Directors

1. The election of the elective executive directors shall be by ballot of the Governors eligible to vote under Article 5, Section 4 (b).

2. In balloting for the elective executive directors, each governor eligible to vote shall cast for one person all of the votes to which the member appointing him is entitled under Section 3 of Article 5. The seven persons receiving the greatest number of votes shall be executive directors, except that no person who receives less than fourteen percent of the total of the votes which can be cast (eligible votes) shall be considered elected.

3. When seven persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above fifteen percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above fifteen percent of the eligible votes, the fifteen percent shall be deemed to include, first, the votes of the

governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until fifteen percent is reached.

5. Any governor, part of whose votes must be counted in order to raise the total of any person above fourteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed fifteen percent.

6. If, after the second ballot, seven persons have not been elected, further ballots shall be held on the same principles until seven persons have been elected, provided that after six persons are elected, the seventh may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

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